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The Director of Central Intelligence  
Washington, D.C. 20505

NIC #05304-84  
14 September 1984

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

FROM: Maurice C. Ernst  
NIO for Economics

SUBJECT: Import Relief of the Domestic Steel Industry

1. As you know, this is an exceedingly complex issue on which CIA has contributed little, except for some background studies of world steel trends, the most recent of which is attached. Moreover, neither I, nor to my knowledge anyone else in the Agency, has followed the policy development process closely, so that I am not in a position to give you any sophisticated comments on the issue and on how different agencies view it. On the basis of a few telephone calls and very limited reading, however, several points seem apparent:

- (1) With respect to underlying economic trends:
  - o The competitiveness of the US steel industry has generally been on a downward trend for many years. One of the reasons is that average wages in the industry have gone up from 130 percent of the US industrial average in 1970 to 176 percent of the industrial average currently.
  - o The massive appreciation of the dollar in recent years has certainly been a major factor further reducing the industry's international competitiveness.
  - o Consequently, import growth has accelerated and domestic production and employment have fallen sharply.
- (2) With respect to the policy options:
  - o Although most agencies would prefer no protection, all agree that this is politically impossible.

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- o There is no support for the ITC recommendations (which were arrived at by a three-to-two majority) that include a combination of tariffs, market share quotas, and tariff rate quotas for up to five years. Although the degree of protection these measures would give the industry apparently is not particularly large, there is little doubt that they would cause all kinds of problems for US foreign trade and relations and encourage domestic protectionist pressures.
- o The policy debate will be over two packages of actions:
  - One option eschews use of Section 201 of the Trade Act as a legal basis for remedial action, relying instead on jawboning, and negotiation of informal voluntary export restraints.
  - The other option would rely on negotiating Orderly Marketing Arrangements under the authority of Section 201, supplemented by other actions.
- o The two main options differ more in appearance, political impact, and flexibility than in economic effect.
  - Both would rely mainly on new arrangements to restrict steel imports from South Korea, Spain, and Brazil to supplement those already affecting the European Community, Mexico and other countries.
  - The "non-201" option would aim at holding the import share to 20 - 26 percent of the domestic market (compared with 24 - 25 percent in the first half of 1984), while the 201 option would hold imports at 18 percent. The latter option, probably would be easier to implement because it would give the USG more leverage with foreign steel exporters.
  - It is unlikely that either set of measures would raise steel prices substantially. It is hoped that they would somewhat improve the outlook for steel modernization.
  - The countries most affected (South Korea, Spain and Brazil) expect to have to negotiate Voluntary Export Restraints and probably will not object strenuously.
  - The steel industry favors the "201 option" and, if it were adopted, would be more likely to drop other protectionist initiatives, such as the current dumping action against Brazil.

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- The "201 option" is the more clearly consistent with existing domestic and international laws, agreements and arrangements. The "non-201 option" may be more flexible--that is, more easily changed or removed.
- o The agencies apparently line up as follows:
  - David Stockman is the main author of the "non-201" option. I gather that STR, CEA, and the leadership at Treasury and possibly State also favor this option.
  - Commerce developed the "201" option. Apparently the middle levels at State and Treasury also support it.
- o I do not believe that either option would have major foreign policy or national security effects.

2. Attached are:

- A. An options paper for the TPC prepared by
- B. A briefing paper by Craig Fuller, which contains useful statistics.
- C. A legal interpretation from State.
- D. A recent OGI paper on world steel trends.

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Maurice C. Ernst

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Attachments,  
As stated

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